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Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 DOTE-00 L-03 /064 W
----------088234 231446Z /53
P 231100Z MAY 78
FM AMEMBASSY YAOUNDE
TO SECSTATE WASHDC PRIORITY 5583

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JOINT EMBASSY/AID MESSAGE

AID/W FOR AFR/CAWA AND DR

E.O. 11652: N/A
TAGS: EFIN, EAID, ETRN, CM
SUBJ: POSSIBLE COMMERCIAL FINANCING OF RAILROAD REALIGNMENT
FROM EDEA TO NDOG-BESSOL

REF: YAOUNDE 2431

1. SUMMARY: PURSUANT LAST PARA REFTEL, EMBASSY AND AID OFFICERS HAVE NOW CONTACTED RESPONSIBLE CAMEROONIANS AND OTHER DONOR REPS AND, WE BELIEVE, OBTAINED REASONABLY COMPLETE BACKGROUND AND PRESENT STATUS OF SUBJECT PROPOSAL. COGEFAR (THE ITALIAN GENERAL CONTRACTOR FOR RECENTLY COMPLETED REALIGNMENT FIRST SECTION TRANSCAM III) INITIATED PROPOSAL TO FINANCE REALIGNMENT OF NDOG BESSOL PORTION PROJECTED THIRD SECTION OF TRANSCAM III. THIS SECTION WAS TO HAVE FOLLOWED SECOND SECTION (DOUALA-EDEA) IN WHICH AID PARTICIPATION IN MULTIDONOR FINANCING IS PROPOSED. PROPOSAL WAS ON VERGE OF ACCEPTANCE WHEN DONORS, WITH KFW IN LEAD, EXPRESSED GRAVE RESERVATIONS. LATEST WORD FROM PRIME MINISTER TO GERMAN AMBASSADOR IS THAT GURC IS RETHINKING WHOLE QUESTION AND MATTER IS SUSPENDED PENDING
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COMPLETION GURC REVIEW PROCESS. END SUMMARY.

2. MATTER HAD ITS GENESIS IN MID-DECEMBER PROPOSAL BY COGEFAR TO PRESIDENT AHIDJO THAT THEY ENTER INTO CONTRACT, BASED ON PRICING FORMULAE IN PRESENT CONTRACT (RIGHTLY CONSIDERED BY GURC TO BE VERY ADVANTAGEOUS), FOR REALIGNMENT AND RECTIFICATION OF SECTION FROM EDEA TO NDOG BESSOL WITH FINANCING TO BE ARRANGED

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ON FAVORABLE COMMERCIAL BANKING TERMS BY COGEFAR. COGEFAR EMPHASIZED THAT THIS WOULD ELIMINATE NEED FOR IT TO DISCHARGE SOME 1,000 SKILLED WORKERS DURING INTERIM PERIOD FOLLOWING IMMINENT COMPLETION FIRST SECTION TRANSCAM III AND TIBATI-MEIDOUGOU ROAD CONSTRUCTION PROJECT IN NORTH AND BEFORE START UP OF DOUALA-EDIA SECTION OF TRANSCAM, FOR WHICH IT HOPES TO WIN CONTRACT. GURC EXPRESSED INTEREST. COGEFAR CONTACTED BANKS AND FOUND INTEREST. A CONSORTIUM OF FIVE BANKS (AMEX, CHASE MANHATTAN, SIFIDA INVESTMENT COMPANY, STANDARD CHARTERED BANK AND CITICORP INTERNATIONAL, WITH CHASE MANHATTAN AS AGENT) HAVE SUBMITTED AGREEMENT UNDER WHICH THEY WOULD PROVIDE $50,000,000 ON THE MOST FAVORABLE COMMERCIAL TERMS EVER RECEIVED BY AN AFRICAN COUNTRY TO OUR KNOWLEDGE (SEE REFTEL FOR DETAILS).

3. IN RECENT WEEKS RUMORS BEGAN TO CIRCULATE THAT SUCH A PROPOSAL WAS UNDERWAY. OUR FIRST CONCRETE INDICATION WAS A COPY OF THE LOAN PROSPECTUS. THIS AND FURTHER CONTACTS WITH VISITING U.S. BANKING SOURCES PROVIDED BASIS FOR REFTEL.

4. SUBSEQUENTLY WE LEARNED FROM GERMAN EMBASSY SOURCE THAT MATTER HAD COME TO ATTENTION OF VISITING KREDITANSTALT FUER WIEDERAUFBAU (KFW) REP. KFW REP REACTED VERY NEGATIVELY, EXPRESSING HIS STRONG RESERVATIONS TO MINISTER ECONOMY AND PLAN WHO PROFESSED IGNORANCE OF PROPOSAL. SUBSEQUENTLY, HE FOLLOWED UP WITH A STRONG MESSAGE (PROBABLY CLEARED BY THE MINISTRY OF
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FOREIGN AFFAIRS) WHICH LISTED KFW CONCERNS/RESERVATIONS ABOUT FOLLOWING: LACK OF PRIOR CONSULTATION WITH DONORS; LOW ECONOMIC RETURN AND PRIORITY NDOG/BESSOL SECTION; KFW FEELING THAT, IN EFFECT, THEIR AND OTHER DONORS' (INCLUDING AID'S) SOFT FINANCING DOUALA-EDEA SECTION WOULD BE SUBSIDIZING ACCEPTANCE COMMERCIAL TERMS FOR EDEA-NDOG BESSOL SECTION; AND RISK THAT CONTRACTING WITH COGEFAR WOULD SERIOUSLY PREJUDICE INTERNATIONAL BIDDING FOR DOUALA-EDEA SECTION. OF OTHER DONORS (FRENCH, FED AND CANADIANS), ALL BUT CANADIANS HAVE SERIOUS CONCERNS ABOUT THE COGEFAR-CONSORTIUM PROPOSAL. FYI: THE VANADIANS WILL NOT BE PARTICIPATING IN FANANCING GENERAL CONSTRUCTION CONTRACT. END FYI. MAIN ISSUES FROM THEIR POINT OF VIEW ARE INAPPROPRIATENESS (I.E. FOR RAILROAD CONSTRUCTION) ON COMMERCIAL FINANCIAL TERMS AND ADVANTAGE COGEFAR WOULD HAVE IN COMPETITIVE BIDDING ON DOUALA-EDEA SEGMENT. FORMER WEIGHS MORE HEAVILY WITH CAISSE CENTRAL WHILE LATTER MOST TROUBLESOME FOR FED.

5. ON MAY 17 EMBASSY AND AID OFFICERS CALLED ON MINISTER OF TRANSPORT MONIE TO OBTAIN GURC'S RATIONALE FOR ENTERTAINING COGEFAR-CONSORTIUM PROPOSAL AND TO DISCUSS POSSIBLE CONSEQUENCES SHOULD THEY DECIDE TO GO THROUGH WITH IT. MONIE ADVISED THAT IF COGEFAR CONSORTIUM PROPOSAL ACCEPTED, CONSTRUCTION WOULD START

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ALMOST IMMEDIATELY AND LAST ABOUT 24 MONTHS. AFTER ITS COMPLETION
AND THAT OF DOUALA-EDEA SECTION IN MID-1982, GURC WOULD HOPE TO
FINANCE MALOUME-ESEKA OR NDOG BESSOL SECTION ON MULTILATERAL

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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----------088256 231445Z /53
P 231100Z MAY 78
FM AMEMBASSY YAOUNDE
TO SECSTATE WASHDC PRIORITY 5584

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JOINT EMBASSY/AID MESSAGE

AID/W FOR AFR/CAWA AND DR

CONCESSIONAL BASIS. MONIE CORROBORATED OUR UNDERSTANDING THAT
COGEFAR APPROACHED GURC AND THAT CONCERN ABOUT UNEMPLOYMENT
FIGURED BOTH IN THEIR SUBMISSION AND GURC RECEPTIVITY. OTHER
DECISIVE FACTORS, ACCORDING TO MONIE, WERE GURC PERCEPTIONS OF
LACK OF DONOR INTEREST IN FINANCING EDEA-NDOG BESSOL SECTION
WITHIN REASONABLE TIME-FRAME (I.E. WITHOUT SUBSTANTIAL INTERIM
FOLLOWING COMPLETION DOUALA-EDEA SECTION) AND THAT CONDITION OF
TRACK ON EDEA-NDOG BESSOL SECTION IS SO BAD AND DANGER OF
LANDSLIDES SO GREAT DURING RAINY SEASON THAT THEY SIMPLY CANNOT
RESPONSIBLY DELAY RECONSTRUCTION UNTIL LATE 1980S WHEN SOFRERAIL
CONSULTANTS SAY IRR WILL BE SUITABLE. MIN TRANSPORT ADDED THAT
ACQUISITION OF SUBSTANTIAL AMOUNT OF ROLLING STOCK NEXT YEAR
WILL SIGNIFICANTLY ACCELERATE RAIL DETERIORATION. LAST YEAR'S
LANDSLIDE WHICH INTERRUPTED TRAFFIC BETWEEN DOUALA AND YAOUNDE FOR 17
DAYS SERIOUSLY FRIGHTENED GURC OFFICIALS AND LED TO A NUMBER OF
DECISIONS (E.G. TO INCREASE FUEL STORAGE CAPACITY IN YAOUNDE AND
NORTH) TO CUSHION EFFECTS MF SUCH OCCURRENCES IN FUTURE. IN
ADDITION, INVESTIGATIONS REVEALED THAT SUCH MISHAPS OCCURRING
AT CERTAIN POINTS ALONG THIS SECTION COULD TAKE UP TO SIX
MONTHS INSTEAD OF DAYS TO REPAIR WITH TRULY DISASTROUS SOCIAL,
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ECONOMIC AND POLITICAL RESULTS. THEY FEEL ECONOMIC ANALYSES CANNOT ADEQUATELY TAKE SUCH ONSIDERATIONS INTO ACCOUNT. REGARDING THE CONTRACT BIDDING ISSUE, THEY NOTE THAT COGEFAR-CONSORTIUM PROPOSAL WOULD SIMPLY MEAN THAT CONTRACT PRICE FOR DOUALA-EDEA SECTION WILL BE LOWER THAN OTHERWISE, BECAUSE THERE WOULD BE NO OVERHEAD COSTS FOR SEVERAL MONTHS DOWNTIME. FINALLY, MINISTER SAID THAT HE PERSONALLY HAD BEEN TAKEN ABACK BY THE KFW REACTION AND THE IMPLICATION THAT "THREATS" BY DONOR INSTITUTIONS CAN FORCE DECISIONS ON SOVEREIGN GOVERNMENTS IN CASES WHERE THE ISSUES ARE AS COMPLEX AND THE RESPONSIBILITIES AS GRAVE AS IN THIS ONE. HE EMPHASIZED REPEATEDLY THAT THE GURC HAD STUDIED COGEFAR-CONSORTIUM PROPOSAL ON ITS MERITS AND THAT IT IS NOT A PRESTIGE PROJECT AND IS IN NO WAY A FRIVOLOUS UNDERTAKING. HE SEEMED GENUINELY HURT THAT AT LEAST SOME DONORS APPEARED INCLINED TO QUESTION THE SERIOUSNESS OF THE GURC'S APPROACH TO SUCH DECISIONS. HE EXPRESSED HIS PERSONAL OPINION THAT GURC WOULD REJECT THE COGEFAR-CONSORTIUM PROPOSAL IF IT APPEARED THAT THE DONOR REACTION WOULD BE SUCH AS TO SERIOUSLY JEOPARDIZE MULTILATERAL CONCESSIONAL FINANCING FOR DOUALA-EDEA SECTION. HE SAID THAT, IF GURC ABANDONS COGEFAR-CONSORTIUM PROPOSAL, IT WOULD CERTAINLY BE HIS HOPE THAT THE DONORS WOULD RECONSIDER THEIR OWN POSITION AND BE MORE FORTHCOMING THAN PREVIOUSLY ON FINANCING THE THIRD SECTION OF TRANSCAM III, INCLUDING EDEA-NDOG BESSOL SECTION.

7. SUBSEQUENTLY AMBASSADOR CALLED ON FINANCE MINISTER YONDO. HE EMPHASIZED THAT GURC HAD CAREFULLY ANALYZED FINANCIAL IMPLICATIONS OF ACCEPTANCE COGEFAR-CONSORTIUM PROPOSAL AND IT APPEARED THAT THIS WOULD BE THE LEAST EXPENSIVE AND MOST EXPEDITIOUS WAY OF REALIGNING EDEA-NDOG BESSOL SECTION AND SERVE CAMEROON'S BEST INTERESTS. HE INDICATED THAT COGEFAR-CONSORTIUM OFFER REMAINS AVAILABLE, BUT ACKNOWLEDGED THAT, FROM GURC POINT OF VIEW, ACTION IS SUSPENDED PENDING FULL REVIEW.

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8. FURTHER ASPECTS OF PICTURE OBTAINED FROM OTHER DONOR SOURCES ARE THAT PROPOSAL WENT FROM MINISTRY TRANSPORT TO MINISTRY OF FINANCE AND THE PRESIDENCY AND THAT THE MINISTER OF ECONOMY AND PLAN MADE A DEMARCHE TO THE PRESIDENCY AFTER HIS MEETING WITH THE KFW REP. GERMAN AMBASSADOR REPORTED TO US THAT HE MET TO DISCUSS MATTER WITH THE PRIME MINISTER AND WAS TOLD THAT THE ACTION ONPROPOSAL HAS BEEN SUSPENDED PENDING A GRUC REVIEW OF WHOLE QUESTION. THE GERMAN AMBASSADOR WILL BE CONTACTING KFW ABOUT THE PROSPECTS OF THEIR FINANCING RECONSTRUCTION OF SOME OF THE WORST SECTIONS BETWEEN EDEA AND NDOG BESSOL.

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9. COMMENT: THIS AS-YET-UNFINISHED EPISODE OBVIOUSLY HAS ITS GENESIS IN JUDGMENT OF SOME TOP CAMEROONIAN OFFICIALS THAT, GIVEN THEIR BLEAK PROSPECTS FOR OBTAINING CONCESSIONAL FINANCING FOR THE NDOG BESSOL SECTION WITHIN A TIMEFRAME THEY CAN LIVE WITH (I.E. BEFORE LATE 1980S), COGEFAR-CONSORTIUM PROPOSLA REPRESENTS BEST USE OF CAMEROON'S EXCELLENT COMMERCIAL BORROWING ABILITY. THERE IS BASIS FOR CONTENTION THAT PROPOSAL WOULD SAVE TIME AND POSSIBLY MONEY. IT ALSO ILLUSTRATES THE EXTREMELY, EVEN DESPERATELY, HIGH PRIORITY WHICH GURC ATTACHES TO COMPLETION OF TRANSCAM III RECONSTRUCTION AND SERIOUSNESS--ALBEIT WITH OCCASIONAL LACK OF COORDINATION--WITH WHICH THE GURC APPROACHES IMPORTANT DECISIONS.
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